

**IMPROVING THE FEDROOMS PROGRAM
BASED ON BENCHMARKING
FEDERAL ACQUISITION SERVICE
REPORT NUMBER A080074/Q/A/P08009
SEPTEMBER 29, 2008**

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Date: September 29, 2008

Reply to
Attn of: Audit Manager, Acquisition Programs Audit Office (JA-A)

Subject: **FINAL REPORT:**
Improving the FedRooms Program Based on Benchmarking,
Federal Acquisition Service
Report Number A080074/Q/A/P08009

To: Tyree Varnado
Acting Commissioner, Federal Acquisition Service (Q)

This report presents the results of the General Services Administration (GSA) Office of Inspector General's (OIG's) benchmarking study of the FedRooms Program (FedRooms). The study was requested by the Federal Acquisition Service (FAS) as a follow-up to the OIG's review of the non-mandated lodging program (Report Number A070167/Q/9/P08002 issued on February 4, 2008).

The benchmarking study determined that in Fiscal Year (FY) 2007, FedRooms usage represented less than one percent of total Government lodging costs. As a result of the low FedRooms usage, the Government has very little leverage in the marketplace to improve hotel rates and amenities. Our benchmarking partners advised us that to improve usage of the program and thus increase the Government's leverage, several steps must be taken: (1) implement policy language that will strongly influence Government travelers to use the lodging program; (2) effectively communicate with travelers regarding the policy, the benefits of the lodging program, and when non-use of the program is detected; (3) enhance the FedRooms.com on-line booking tool and travel authorization process; (4) consider program funding alternatives; and (5) carefully define in the contract for day-to-day operations of the program how crucial program functions are to be performed (such as soliciting offers, determining which hotels to include in the program, presenting hotels on the program website, and charging program hotels) and who has ownership rights to the program website.

FAS' response to the draft report, dated September 17, 2008, is included as Appendix A of the report.

A handwritten signature in blue ink, reading "Perla Corpus", is located below the text of the report.

PERLA CORPUS

Audit Manager
Acquisition Programs Audit Office (JA-A)

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EXECUTIVE SUMMARY

PURPOSE

The objective of this review was to determine how FAS can improve FedRooms to gain wider participation by hotels and travelers based on best practices used by large corporations and states.

BACKGROUND

FedRooms promotes the following benefits with a hotel room reservation: rates at-or-below Government per diems; no-fee reservation cancellation privileges, no added costs (health club fee, resort fee, etc.), no early check-out fees, and last room availability of program rates at many hotels.

On September 21, 2004, Carlson Wagonlit Travel (CWT) was awarded the contract to manage FedRooms. Program costs are approximately \$650,000 annually for CWT (plus marketing expenses) and \$853,000 per year for GSA. To fund FedRooms, program hotels are required to remit a 2.75 percent fee to CWT, whereby CWT retains 2.0 percent and sends 0.75 percent to GSA.

As of July 24, 2008, there were 6,578 hotels participating in FedRooms. SmartPay charges for official civilian and military hotel rooms were \$2.5 billion for FY 2007. However, FedRooms, now in its fourth year, had usage of less than one percent of that amount.

RESULTS IN BRIEF

The review determined that in FY 2007, FedRooms usage represented less than one percent of total Government lodging costs, and as a result, the Government has very little leverage in the marketplace to further the goals of the program.

Benchmarking partners advised that in order to improve hotel rates and amenities, it was important to limit the number of program hotels and move volume to them. According to our partners, implementing a successful lodging program positioned them with leverage or buying power to negotiate with any hotels for possibly even better rates and amenities. Further, our benchmarking partners advised us of several ways FAS program officials could increase FedRooms usage, and our recommendations address these areas.

RECOMMENDATIONS

We recommend the Acting Commissioner of the Federal Acquisition Service:

1. Work in partnership with the GSA Office of General Counsel and the GSA Office of Governmentwide Policy to strengthen/improve the language in the Federal Travel Regulation (FTR) for FedRooms, including requiring travelers to cite one of the four exceptions listed in the FTR “for travel within the contiguous United States” if they do not use a FedRooms hotel and obtain supervisory approval for the non-use.
2. Direct GSA program officials to work with CWT to determine the most effective method of marketing FedRooms and following up with non-compliant travelers.
3. As a means of increasing traveler use of FedRooms and satisfaction with their on-line booking experience, direct FAS to work with (a) CWT to improve its website, FedRooms.com and (b) the E-Gov Travel Service vendors to automatically default and route to the preferred hotel content (FedRooms) within the on-line booking tool when an overnight stay is required.
4. Perform cost studies of funding alternatives to the 2.75 percent fee assessed to program hotels as a means of gaining greater hotel participation and traveler usage of FedRooms in order that program revenues cover program costs.
5. Carefully define in the follow-on solicitation for the day-to-day operations of FedRooms provisions such as: (a) how the contractor is to determine the hotels to solicit offers from, select and remove program hotels, and charge program hotels, and (b) who owns the rights to the website used to list hotel information and make reservations, so flexibility in vendor selection for follow-on contracts to manage FedRooms is preserved.

IMPROVING THE FEDROOMS PROGRAM
BASED ON BENCHMARKING
FEDERAL ACQUISITION SERVICE
REPORT NUMBER A080074/Q/A/P08009

INTRODUCTION

Background

FAS requested this benchmarking study as a follow-up to the OIG's review of FedRooms, which is a non-mandated program (Report Number A070167/Q/9/P08002 issued on February 4, 2008). The objectives of the first review were to determine whether the lodging program: (1) provided Government travelers ease of reservation access, best value, reservation flexibility, and FEMA compliant hotels; (2a) was used by Government travelers; and (2b) could be enhanced. The review determined that FedRooms offered easy reservation access, rates at or below per diem, reservation flexibility, and FEMA compliance. However, we determined that usage of FedRooms hotels was low and recommended that the Commissioner of FAS develop a Business Plan for FedRooms.¹

FedRooms promotes the following benefits with a room reservation:

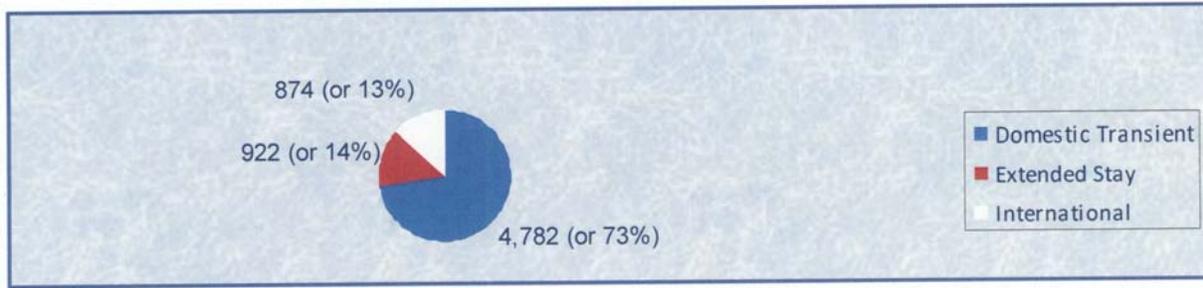
- Rates at-or-below Government per diem allowances;
- Reservation cancellation without penalty until 4:00 pm or later on the day of arrival;
- No added costs (i.e., maid fee, health club fee, resort fee);
- No early check-out fees; and
- Last room availability of program rates at two-thirds of the FedRooms hotels.

On September 21, 2004, CWT was awarded the contract to manage FedRooms. Program costs were estimated at \$650,000 annually for CWT (plus marketing expenses) and approximately \$853,000 per year for GSA. To fund the program, hotels remit 2.75 percent of room revenues to CWT. CWT retains 2.0 percent and sends 0.75 percent to GSA.

¹Specifically, the OIG recommended that FAS develop a business plan that includes addressing the obstacles that may affect the future viability of the program. These obstacles include providing incentives to Government travelers and differentiating the FedRooms rate from the hotel's Government rate. In addition, the report said the plan should take into consideration the impact of the Government's per diem rates for lodging on FedRooms. The Management Action Plan stated that the Business Plan would be completed by January 15, 2009.

As of July 24, 2008, a total of 6,578 hotels had been accepted² into FedRooms, as shown in the chart below.

Chart I - Program Hotels as of July 24, 2008



Source: CWT's FedRooms Program Manager

According to data from GSA's SmartPay travel card program, expenditures for official civilian and military hotel rooms were \$2.5 billion for FY 2007. FedRooms, now in its fourth year, had usage of less than one percent of total SmartPay lodging expenditures in FY 2007.³

OBJECTIVE, SCOPE AND METHODOLOGY

The objective for our follow-up review was to determine how FAS can improve FedRooms to gain wider participation by hotels and travelers based on best practices used by large corporations and states. The basis of our analyses was domestic transient or short-term stay hotels, which represented 4,782 (or 73 percent) of the total properties participating in FedRooms.

To accomplish our objective, we performed the following steps:

- Interviewed FAS and CWT officials, analyzed CWT data related to FedRooms, and tested CWT's FedRooms website (FedRooms.com)⁴ for strengths and weaknesses.

²Accepted status indicates that CWT has approved a hotel's rate proposal, confirmed that the hotel's FedRooms rates were posted, and verified the Government's safety requirements.

³The universe could be as high as \$5 billion for total Government lodging expenses. According to a FAS official, total travel expenditures for the Government (civilian and military) has been difficult to determine due to significant numbers of Government travelers failing to use their SmartPay cards for official travel.

⁴FedRooms.com is a website developed and owned by CWT. Under the present contract, FAS only owns the FedRooms brand name.

- Held discussions and analyzed relevant documentation with the following hoteliers: Choice Hotels International; Intercontinental Hotels Group; Hilton Hotels Corporation and Marriott International, Inc.

Our selection of the first three hotels was based on their significant participation in FedRooms. However, the fourth hotel chain, known as one of the leaders in Government hotel bookings, has no participation in FedRooms at the national level and limited participation by franchisees.

- Held discussions and analyzed relevant documentation with the following travel management companies: Uversa International, Inc.; SatoTravel; and National Business Travel Association.

We selected the first company as a result of a FAS referral, the second company was ideal because they operate other lodging programs for the benefit of corporations and Government agencies, and the third was chosen because they have many corporate members and unique insights into the travel industry.

- Held discussions and analyzed relevant documentation with the following corporations: International Business Machines Corporation, Lockheed-Martin Corporation, General Electric Company, Deloitte-Touch Tohmatsu, Oracle, Perot Systems, Federal Express Corporation, Hewlett Packard Company, and American Airlines.

Company selection was based on FAS referrals, as well as the following criteria: Fortune 500 companies in various industries (high-tech, aerospace defense, financial, delivery-freight, etc.) with lodging programs, significant travel budgets, and a large number of employees who travel within the continental United States.

- Held discussions and analyzed relevant documentation with the following states: Texas, Oregon, Utah, and Colorado.

We selected these states because FAS officials or other benchmarking partners advised us that they had well-established lodging programs.

We conducted this audit in accordance with generally accepted Government auditing standards.

RESULTS OF REVIEW

Brief

In FY 2007, FedRooms usage represented less than one percent of total Government lodging costs. As a result of the low FedRooms usage, the Government has very little leverage in the marketplace to further the goals of the program.

Benchmarking partners advised that the key to improving hotel rates and amenities in a lodging program was to limit the number of program hotels and to achieve actual stays by employees at these hotels. According to our partners, implementing a lodging program certainly positioned them with leverage to negotiate with hotels for possibly even better rates and amenities.

In order to increase FedRooms usage among Government travelers and thereby strengthen the Government's leverage in the marketplace, our benchmark partners advised that several steps must be taken:

- Implement policy language that will strongly influence Government travelers to use the lodging program;
- Effectively communicate with travelers regarding the policy, the benefits of the lodging program, and when non-use of the program is detected;
- Enhance the FedRooms.com on-line booking tool and travel authorization process;
- Consider program funding alternatives; and
- Carefully define in the contract for day-to-day operations of the program how crucial program functions are to be performed (such as soliciting offers, determining which hotels to include in the program, presenting hotels on the program website, and charging program hotels) and retain ownership rights to the program website.

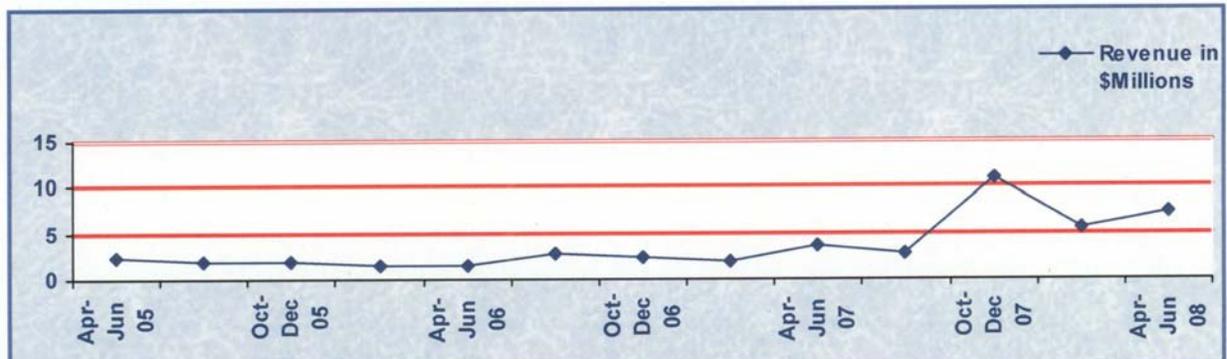
Finding 1 – Revise Policy Language to Encourage Traveler Participation

Although the FTR does not mandate use of the program, the language should be strengthened to more strongly encourage participation in FedRooms. The current FTR language does not explain the importance and benefits of FedRooms, nor does it require travelers to cite an exception for not using the program and obtain supervisory approval for the exception. As a result, the policy has minimal influence on Government travelers, with usage of FedRooms representing less than one percent of total Government lodging costs. Because of the lack of volume at program hotels, program rates are typically the same as the hotels' normal Government rates.

As shown in the following charts, program usage has slowly increased, with the dramatic rise for the first quarter of FY 2008 caused by the late reporting by one hotel

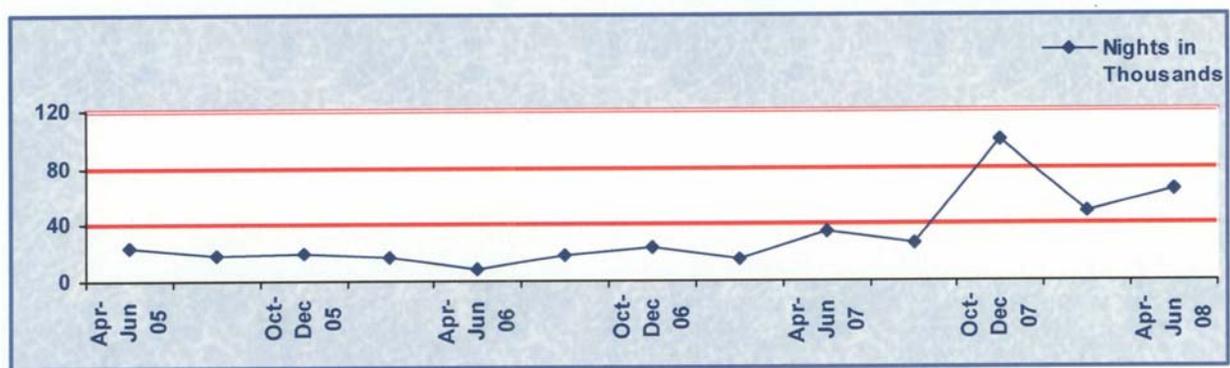
chain. However, program usage still represented less than two percent of the Government's estimated total lodging costs in the first three quarters of FY 2008.

Chart II - Hotel Revenues from April 2005 to June 2008



Source: CWT's Reporting and Remittance Coordinator

Chart III - Room Nights from April 2005 to June 2008



Source: CWT's Reporting and Remittance Coordinator

Legislation to remove the prohibition against mandating the use of the lodging program is in limbo.⁵ However, FTR 301-50.8 currently states that "first consideration" must be given to commercial lodging facilities under the lodging program when Government travelers make their hotel selection. The FTR lists exceptions that are similar to the ones allowed by our corporate partners, but the corporations typically require travelers to cite one of the exceptions when staying in a non-program hotel. The FTR does not require that of Government travelers.

⁵On March 13, 2008, GSA sent Congress a comprehensive legislative proposal, "the GSA Enhancement Act of 2008", and it is currently seeking a sponsor.

Specifically, the FTR states:

“When selecting a commercial lodging facility, first consideration must be given to the commercial lodging facilities under FedRooms...unless...(i) An [sic] FedRooms facility is not available at the location you need....(ii) Your agency has other contractual arrangements...at a lower cost than FedRooms properties. (iii)it is not practical to use FedRooms facilities....(iv) You are attending a conference with prearranged lodging...[or] (v) Your travel is OCONUS.”⁶

According to an Office of Governmentwide Policy official, the Office of General Counsel believed that “first consideration” language was as legally close to achieving FTR compliance from Government travelers without actually mandating the strict use of the program. This is because of Title 5, United States Code § 5911(e), which states:

“The head of an agency may not require an employee or member of a uniformed service to occupy **quarters** [emphasis added] on a rental basis, unless the agency head determines that necessary service cannot be rendered, or that property of the Government cannot adequately be protected, otherwise.”⁷

The Office of Management and Budget’s Circular A-45, “Rental and Construction of Government Quarters” defines rental quarters as:

“...all furnished and unfurnished quarters supplied under specific Government authority to Government employees, contractors, contractor employees, and all other persons to whom housing is provided as an incidental service in support of Government programs. It includes, but is not limited to, Government-owned or -leased dwellings, apartments, bunkhouses, dormitories, trailer pads, cabins, guard stations and lookouts, mobile homes, house trailers, and housekeeping as well as non-housekeeping units.”

Although mainly geared to long-term housing, in Decision B-229317 dated April 27, 1989, the Comptroller General of the United States held that 5 U.S.C. § 5911(e) also prevents agencies from requiring employees on official travel to stay in hotel or motel rooms contracted for by the Government.

⁶OCONUS refers to travel outside the contiguous United States.

⁷Title II, Section 207 of the proposed GSA Enhancement Act of 2008 would state that this provision does not apply to lodging reimbursed under Chapter 57, which deals with travel, transportation, and subsistence allowances. Therefore, the head of an agency could require employees to use a lodging program, such as FedRooms.

In addition to using non-persuasive language (i.e., “first consideration”), not requiring the traveler to cite an exception when using a non-program hotel, and not specifying that the traveler obtain supervisory approval for the exception, the current FTR policy does not explain the importance of FedRooms. Our corporate partners indicated that it was important to convey to employees a reason as to why a hotel program was needed. By providing an explanation, corporate travel directors were able to convince employees that staying at program hotels was not only for the benefit of saving travel costs of the company, but also for providing additional amenities to the travelers, enabling them to stay in better and more conveniently located hotels, and enhancing their personal safety. Even the FTR provides an explanation of the benefits of one of the Government’s other travel programs (the car rental program),⁸ so the precedent has been set to allow that.

Because our corporate partners have travel policies that discuss the benefits of the lodging program to the company and the traveler, as well as require employees to stay in program hotels or cite an exception that a supervisor must approve, they advised us that they have been able to move volume to program hotels, and, therefore, negotiate lower hotel rates and include features such as last room availability,⁹ Some company results have been impressive:

- By having a large travel budget (almost \$200 million annually for hotels) and high usage of program hotels (83 percent), one company was able to negotiate rates that were equal to or lower than per diem rates at 92 percent of their program hotels, obtain significant participation (over 1,000 hotels) by a large hotel chain that chooses not to participate in FedRooms at the national level, and obtain last room availability at 97 percent of the hotels. The company provided information on their rates in ten high-volume cities. Three of these ten cities; Washington D.C., New Orleans, and Atlanta had room rates that were equal to or lower than FedRooms rates.
- A second company with 112,000 room nights annually and 68 percent usage of program hotels advised that they have compared their program rates to Government per diems and found their rates are frequently lower. In addition, they have been able to obtain (or secure) last room availability at 75 percent of their program hotels, and they may cancel reservations up to 6:00pm on the day of arrival without penalty.

⁸FTR §301-50.8(c) says the Surface Deployment and Distribution Command has negotiated rental car agreements that include automatic unlimited mileage, collision damage insurance, and ceiling rates.

⁹Last room availability means travelers are able to obtain rooms at program rates as long as the hotel has a standard room available.

- A third company reporting \$300 million in annual lodging costs, with nearly 80,000 travelers and 70 percent program usage, did not disclose all of their corporate hotel rates. However, they advised that they were able to negotiate a hotel rate that was substantially below the Government per diem lodging rate (\$36 less) in a major west coast city.
- Another company with almost \$200 million in annual lodging costs, 54,000 travelers, and comparatively high program usage (50 percent) was able to obtain last room availability at all of their hotels, while still obtaining competitive rates at hotels that travelers wanted to use.

To persuade Government travelers to book their hotel reservations through FedRooms, a non-mandated lodging program, FAS needs to revise the wording in the FTR, using stronger and more convincing language that would persuade Government travelers to use the program. Additionally, FAS must require that Government travelers cite one of four exceptions for non-compliance for travel within the contiguous United States. Finally, program usage may increase if FAS provides an explanation in the FTR about the importance of using the lodging program.

Recommendation

We recommend that the Acting Commissioner of the Federal Acquisition Service:

1. Work in partnership with the GSA Office of General Counsel and the GSA Office of Governmentwide Policy to strengthen/improve the language in the FTR for FedRooms, including requiring travelers to cite one of the four exceptions listed in the FTR if they do not use a FedRooms hotel and obtain supervisory approval for the non-use.

Finding 2 – Communicate Policy and Contact Non-Compliant Travelers

Since the inception of FedRooms, CWT has taken numerous actions to increase traveler use of FedRooms. However, CWT indicated that many travelers were still unaware of FedRooms, and those who knew of the program's existence did not feel compelled to use it. CWT and our benchmarking partners advised us that extensive communication with travelers and top management support are important to make travelers aware of the program and make them feel that they need to use it.

Some actions CWT has taken to increase Government traveler awareness of FedRooms include travel card billing inserts, advertisements in government periodicals such as the Federal Times, and participation at the 2008 National Travel Forum and 2008 GSA Exposition. In addition, CWT has provided official FedRooms certificates to program hotels for display purposes in order to publicize their participation in the program.

CWT has conducted numerous traveler surveys, including four surveys with a significant number of responses.¹⁰ These surveys sought to determine what features travelers consider important in selecting a hotel room, how they normally book a room and why, and whether they are aware of FedRooms and if they have used it.

Only 24.4 percent of the respondents of two surveys (307 out of 1,258 travelers) were aware of the program, and only 6.5 percent had used it. Eighty-five percent of the respondents of another survey (518 out of 610 travelers) were aware of the program, but only 45 percent had used it. These variances may be partially caused by the limited ability of CWT and GSA to market directly to travelers due to privacy concerns that cause Government agencies to decline to share employee contact information with them. Further, top management of GSA and other agencies have not expressed to their employees through memorandum, email notification, or revised performance measures that usage of FedRooms is important to them. Our benchmarking partners with successful lodging programs advised us that marketing directly to travelers and strong top management support are important factors to increase program usage. Perhaps an additional opportunity to market FedRooms to Government travelers is to place a notice about the program on the GSA website that shows per diem rates.

For the majority of our benchmarking partners, travel offices send emails to their travelers and/or administrative assistants to communicate policy regarding their lodging program and why it is important to use the program hotels. They stressed that frequent communication is crucial in increasing usage of the lodging program, and that the communication should include the following components:

- Periodic emails to all employees. These emails communicate information about the program and explain why it is important for the traveler and the company (and more specifically, for the travelers' specific work unit, since the profitability of many companies is managed at that level). The emails emphasize that the lodging program helps reduce operating costs, improves the ability of the company to track employees in times of emergency, and ensures that the travelers are staying in hotels that have an acceptable level of quality, safety, and security.
- Follow-up emails to employees that do not use program hotels. These emails not only inform employees of out of tolerance actions but also serve to let the employee know that their actions to make hotel reservations are closely monitored. The emails say the corporation might not reimburse such expenses in the future, and the employee's performance rating might be affected.

¹⁰Surveys included the following: (1) Department of Justice in December 2006 with 315 responses, (2) Social Security Administration in December 2006 with 943 responses, (3) all Government travelers in February 2007 with 610 responses, and (4) an on-going survey of Government travelers regarding the usability of FedRooms.com with 1,024 responses since June 2005.

- Periodic email reports to management. These reports list employees who booked trips but did not use the lodging program. This allows the managers to follow up with non-compliant employees to determine why and emphasize the importance of using the program. One of the benchmarking partners even posts this report to their website, so other employees may view it and apply peer pressure to the nonconforming travelers.

The benchmarking partners advised that most travelers will abide by travel policy and use program hotels if they understand the policy and the importance of compliance. Additionally, travelers will abide if they know that others, in particular their managers, are notified when they violate policy.

Recommendation

We recommend that the Acting Commissioner of the Federal Acquisition Service:

2. Direct GSA program officials to work with CWT to determine the most effective method of marketing FedRooms and following up with non-compliant travelers.

Finding 3 – Implement System Enhancements

The FedRooms booking tool and the travel authorization process have shortcomings that need resolution to increase Government traveler satisfaction with FedRooms and improve use of the program.

Benchmarking partners advised that having a user-friendly booking tool is a crucial component in improving program usage, and that having a slow, difficult to use, or incomplete booking tool can quickly alienate travelers and discourage their return to the program. Benchmarking partners also advised that the booking tool should automatically take the traveler to the lodging program website when arranging a trip to encourage greater use of the program.

According to CWT surveys of Government travelers, only a small percentage of travelers use FedRooms.com to book a room.¹¹ In addition, an ongoing survey that CWT launched in June 2005 of travelers has generated 1,024 responses. The responses to this survey indicate dissatisfaction with the FedRooms website and the FedRooms program, as shown in the table on the next page:

¹¹According to CWT Surveys, only 4 out of 1,258 survey respondents (less than one percent) at Social Security Administration and Department of Justice in December 2006 had used FedRooms.com to book a room. Only 55 respondents (or 9 percent) from multiple agencies in February 2007 had used FedRooms. Only 104 of the respondents to the ongoing usability survey had used FedRooms (10 percent of all survey respondents or 17 percent of those who responded to that specific question).

Table I - Survey Results Regarding FedRooms.com

Survey Question	Percent of Respondents
Extremely or somewhat difficult to navigate the hotel search page	42
Extremely or somewhat difficult hotel search experience	61
Would NOT recommend FedRooms.com to co-worker/associate	67
Search results were not or only somewhat applicable to their travel	61
Could not find a hotel that met their needs	69
FedRooms rates were not available at the hotel the traveler chose	73
Percent of travelers who booked a room through the website	17

Source: CWT's Manager of Marketing and Communications for FedRooms

CWT's marketing materials tout FedRooms as "The ridiculously easy way to find a hotel." In April 2008, CWT took steps toward better fulfilling that pledge by enhancing the on-line booking tool they developed for FedRooms. Now, the website allows travelers to determine room availability at program rates by simply clicking on the hotel name. This was a significant improvement over the previous process, in which the traveler was taken to a hotel chain's website to determine room and rate availability. Still, travelers have repeatedly advised CWT in usability surveys that are posted to the FedRooms.com website that further improvements are possible. Some of the issues that consistently appear on the survey responses are:

- The need for greater download speed. CWT advised us that they are making improvements to the speed of their website as often as they are able within their limited resources for doing so.
- The need to easily cancel or modify a reservation. The confirmation email a traveler receives when booking a room through FedRooms.com advises them, "If you need to cancel or modify your hotel reservation, please contact the hotel directly." Ideally, the booking tool would be able to process changes. CWT advised us that this improvement is a priority project on their development list, but requires time and money that may not be available until 2009.
- The need to search by destination and distance from destination. CWT advised us that this feature, which is a feature of best-in class booking sites, is currently on their development list, but does not yet have a target completion date.
- The need to be able to print the results of a hotel search. CWT advised us that this feature is currently on their development list but does not yet have a target completion date.

Through our benchmarking interviews, test of the capabilities of the FedRooms website, and comparison of the website to other similar websites, we became aware of additional improvement opportunities:

- Lodging taxes. When making reservations through FedRooms.com, we noted that the confirmation email shows the nightly rate, but does not show applicable taxes. Travelers need to know taxes to prepare their authorizations. Private sector websites are able to present tax information, and therefore give the traveler the exact all-inclusive cost of their room.
- Room availability. The traveler is now able to determine room and rate availability by clicking on the name of the hotel. This is a definite improvement over previous processes, but best-in-class private sector booking tools have taken this a step further and eliminated a step for the traveler by only showing those hotels that have room availability at the program rate.
- Hotel description. A state advised us that it is important for the booking tool to describe the hotels accurately and fully so the traveler knows what to expect and can make an informed decision. The amount of descriptive information and photographs varies considerably among the program hotels, and private sector booking tools offer enhanced descriptions and photos. The FedRooms contractor relies on program hotels to provide information and photos.
- Traveler Information. Each time a traveler books a room through FedRooms.com, they must input their name, address, telephone number, charge card number and expiration date, hotel rewards program number, and room or bed preferences. In contrast, best-in-class booking websites allow the traveler to establish a profile, so they do not need to reenter that information with each reservation.
- Rate Information Reliability. When arranging a reservation on FedRooms.com the website identifies room rates that are purportedly available for the dates specified. However, this information is not necessarily accurate. When we tested the website's reservation capabilities, it showed that a \$189 room rate was available at a Washington, D.C. hotel. However, after the reservation was booked, the confirmation showed that reservation had been made for \$342 per night, a difference of \$153 (\$141 over the per diem rate of \$201).

In addition, a change to the systems used by Government travelers to prepare their pre-trip travel authorizations could help increase usage of the FedRooms hotels. A FAS

program official advised us that all three electronic travel system vendors¹² are required by their master contracts to include FedRooms hotels and have had that capability for the last three years. However, it has been a difficult work in progress to better highlight and position FedRooms hotels in these systems.

Currently, travelers can book a FedRooms hotel room as part of the travel authorization process by checking a box that indicates they would like to do so. The exact procedures for each of the three E-Gov Travel Service vendors can be slightly different, but each of the systems presents a list of hotels from which the travelers may choose. Some of these hotels offer FedRooms rates, and they are identified by a FedRooms designator. When the traveler clicks the “check rates” box by the name of the hotel they would like to use, the system accesses the Global Distribution System to identify rates and availability. It might list many different rates for the hotel, with a description of the rates’ applicability. The plethora of rates and the arcane rate descriptions can make it difficult for the traveler to identify the FedRooms rate.

Conversely, the traveler could be automatically taken to the E-Gov Travel Service vendors’ hotel booking sections if the trip is for one night or more, with the traveler being required to cite a reason code if they choose not to do so. This would be a relatively easy way of increasing program usage and improving the completeness and validity of program usage data, and it is currently the process for obtaining airline reservations.

Recommendation

We recommend that the Acting Commissioner of the Federal Acquisition Service:

3. As a means of increasing traveler use of FedRooms and satisfaction with their on-line booking experience, direct FAS to work with (a) CWT to improve FedRooms.com and (b) the E-Gov Travel Service vendors to automatically default and route to the preferred hotel content (FedRooms) within the on-line booking tool when an overnight stay is required.

Finding 4 – Consider Program Funding Alternatives

A hotel chain that many Government travelers elect to use chooses not to participate at the national level because of the 2.75 percent funding fee that FedRooms hotels must pay to CWT for program bookings. Consequently, Government travelers wanting to book rooms with this hotel chain do not use FedRooms.

CWT retains 2 percent of the 2.75 percent fee to compensate its FedRooms program costs. As a result of the fee, CWT received \$215,189 and \$599,926 for FYs 2007 and

¹²CW Government Travel, Electronic Data Systems – U.S. Government Services, and Northrop Grumman Mission Systems

2008, respectively (through three quarters of FY 2008). The Director of FedRooms for CWT's FedRooms Director advised that costs to administer FedRooms were approximately \$650,000 per year for salaries and overhead, with additional marketing costs. She also indicated that current program revenues now cover their current program operating costs because they receive additional revenues from hotel advertisements. However, since the inception of the FedRooms contract, the company's program costs have exceeded program revenues by approximately \$1 million.

CWT remits the remaining 0.75 percent to GSA to help fund the agency's program costs associated with FedRooms, since this is not an appropriated program. A FAS official estimated that GSA spends \$853,000 annually, as shown in the following table:

Table II - Summary of GSA's Program Costs¹³

Cost Category	Estimated Annual Cost
Personnel cost	\$373,000
Studies and contract support	\$130,000
GSA/FAS indirect costs (overhead)	\$350,000
Estimated Total Cost	\$853,000

Source: Acting Division Director, Center for Travel Management, Office of Travel and Transportation Services, Federal Acquisition Service

GSA's program revenues did not cover its program costs. Program revenues for FY 2007 were only \$80,696 (an estimated deficit of \$772,304). In FY 2008, revenues were projected at \$125,000, but the estimate has now been revised upward to \$200,000. This leaves a projected \$653,000 deficit for FY 2008.

CWT has been very successful in increasing hotel participation in FedRooms; as of July 2008, there were 6,578 hotels in the program. However, a prominent hotel chain with 3,000 hotels (2,100 domestic and 900 international) elects not to participate at the corporate level because of the program fees, and only 140 of their franchised hotels have independently chosen to participate.

The virtual absence of a large hotel chain that travelers like to use has reduced the number of rooms booked through FedRooms. Government travelers continue to opt for this hotel chain in huge numbers, reducing the volume of rooms booked through the program. The hotel chain advised us that they receive approximately \$900 million in Government business annually, and that their share of total Government transient lodging is steadily increasing. Our analysis of SmartPay data for this hotel chain shows

¹³FedRooms is not a separate line item in GSA's travel and transportation budget, so these numbers represent the best estimates program officials could provide.

that Government expenditures at its properties for FY 2004, 2005, and 2006 were 16.7 percent, 17.8 percent and 18.9 percent, respectively, of total Government lodging expenses.

In addition, other participating hotel chains advised us that their satisfaction with the program and level of participation (i.e., number of hotels in their chain choosing to offer FedRooms rates) is reduced by the fee. They stated that tracking program usage, calculating the fees, and remitting them quarterly to CWT is a frustrating aspect of the program. Further, none of the corporations or travel management companies, and only one state we interviewed funds their programs through hotel fees.

The Director of Sales, Government and Affinity Segments, of the large hotel chain that chooses not to participate at the corporate level advised that if the program fee were eliminated, he would immediately make available to FedRooms all of its hotels in all of its chains. Further, he said he would make their Information Technology expertise available to help identify improvement opportunities for FedRooms.com.

FAS clearly needs to identify an alternative program funding source if the fee for participating hotels were eliminated. Most of our benchmarking partners fund their lodging programs as a line item in their budget. However, some of our benchmarking partners used alternative funding mechanisms that perhaps could be employed for FedRooms:

- Travel Card Rebates. Three corporations advised that they use rebates from their travel charge card vendor to help fund their lodging programs. GSA funds its airline City Pairs program in this manner. The Government's SmartPay travel card program generated rebates of \$9.3 million in FY 2007, and \$2.5 million of this was used to fund the City Pairs program, with the balance used to fund the SmartPay program.
- Travel Agency Fees. One of our state benchmarking partners advised that their travel agency fee is \$25 per airline ticket issued, but the travel agency remits \$6 of that fee to their in-house travel office to fund its operations. Another state partner indicated that they receive \$3 of the travel agency's per-ticket fee to fund their lodging program.

In 2005, GSA contracted with Accenture to study funding alternatives for their travel programs.¹⁴ The October 31, 2005 Accenture report stated that GSA's travel programs cost about \$16.5 million in FY 2006 and program revenues fell far short of this cost. Accenture identified three funding options:

¹⁴The study's report, GSA Travel Management Office Fee Structure Approach, was issued on October 31, 2005.

- Agency Subscription Fee. Each agency would pay a subscription fee (monthly, quarterly, or annually) to GSA based on their individual travel expenditures relative to the rest of the Government.
- Travel Card Transaction Fee. A percentage transaction fee, proportionate to the agencies' travel expenditures relative to the total Government, is attached to each Travel Card transaction processed.
- E-Gov Travel Services Transaction Fee. A percentage transaction fee, proportionate to the agency's travel expenditures relative to the total Government, is attached to each transaction processed through the Electronic Travel System vendors. Since the Department of Defense does not use GSA's Electronic Travel Systems vendors, they would pay a subscription fee for GSA travel services.

The Accenture report also stated that additional research regarding costs and revenues was needed. Specifically, it recommended that GSA take the following steps:

- Gain a better understanding of costs and revenues needed to operate shared travel service;
- Gain customer agency and stakeholder agreement on fee structure; and
- Refine and implement the fee structure based on customer agency and stakeholder feedback.

A FAS official advised that these funding options were not discussed with other Government agencies, and no changes were made to the funding model.

Recommendation

We recommend that the Acting Commissioner of the Federal Acquisition Service:

4. Perform cost studies of funding alternatives to the 2.75 percent fee assessed to program hotels as a means of gaining greater hotel participation and traveler usage of FedRooms in order that program revenues cover program costs.

Finding 5 – Reevaluate Contract Provisions

GSA cannot be certain that the program is operated in the Government's best interest in all respects, because GSA has outsourced the day-to-day operations of FedRooms to CWT in a contract effective from October 2004 to September 2009. The contract provides CWT substantial latitude to exercise its judgment on program operations.

According to the terms of its contract with GSA, CWT is required to:

- Provide lodging rates at-or-below per diem;
- Negotiate and ensure hotel compliance of FedRooms rates;
- Provide room inventory necessary to meet 75 percent of the estimated room nights for Government employees at top Government travel destinations;
- Maintain an updated list of FedRooms properties on a designated web-site;
- Provide an updated inventory listing for access to Travel Management Centers¹⁵ and electronic Travel Services;
- Provide help desk services to travelers;
- Provide lodging properties that are deemed Federal Emergency Management Agency-compliant, with a minimum 2-diamond American Automobile Association rating, or equivalent;
- Collect a 2.75 percent participation fee for every room night identified as a FedRooms booking (with quarterly remittance of 0.75 percent to GSA);
- Report to GSA on FedRooms rate occupancy activity; and
- Conduct marketing campaigns to promote usage and benefits of FedRooms in partnership with GSA's Office of Travel and Transportation.

Some of the corporations we partnered with advised that they also have outsourced a majority of the day-to-day lodging/travel program operations, but have retained certain functions in-house, such as hotel selection and traveler compliance; as a means of ensuring that the program operates in their best interest.. They suggested GSA carefully consider what functions the contractor should perform and how much latitude GSA should provide the contractor to make decisions about changes to the program.

If GSA chooses to continue outsourcing all of the day-to-day operations of FedRooms, our corporate benchmarking partners suggested that GSA carefully define in the contract exactly how the contractor is to perform the following functions to ensure they are done in accordance with the best interests of the Government:

- Selection of Hotels. Our benchmarking partners advised us that the contract should define how the contractor will identify which hotels to solicit and ultimately include in the program, and the circumstances under which hotels will be removed from the program. The current GSA contract with CWT provides no guidance in this area. Unless the contract defines these issues, our benchmarking partners advised that GSA would risk the contractor including hotels with whom they have a marketing and/or ownership interest, and not necessarily hotels that are in the best interest of the program and its users.
- Fees the Contractor May Charge Participating Hotels. CWT advised that they continually seek ways to enhance the program's revenue stream. For example, they are considering charging hotels to be listed as a "favorite" on the

¹⁵ Travel agencies providing official travel services for Government agencies.

FedRooms.com website, and one hotel chain was concerned that CWT would start charging hotels for program usage reports. Such fees are not prohibited by CWT's contract. The contract is silent on these issues. GSA should define in the contract whether these types of fees are acceptable under its program, as additional fees for hotels could impact the hotel participation rate.

- Booking Tool Ownership. As indicated previously, CWT advised that they own the rights to the FedRooms.com website that allows travelers to see information on program hotels and reserve rooms. We believe this factor provides CWT with a significant advantage over other potential offerors when GSA negotiates the follow-on contract and significant leverage when defining fees and terms.

Recommendation

We recommend that the Acting Commissioner of the Federal Acquisition Service:

5. Carefully define in the follow-on solicitation for the day-to-day operations of FedRooms provisions such as (a) how the contractor is to determine the hotels to solicit offers from, select and remove program hotels, and charge program hotels, and (b) who owns the rights to the website used to list hotel information and make reservations, so flexibility in vendor selection for follow-on contracts to manage FedRooms is preserved.

CONCLUSION

Based on annual SmartPay lodging charges of \$2.5 billion for approximately 23 million room nights incurred by Government travelers annually, the Government is in position with FedRooms to exercise its buying power over hotels for better rates and amenities. However, the program exerts minimal leverage over program hotels due to the lack of usage. To increase FedRooms usage, FAS needs to adopt best practices learned from our corporate and state partners. In particular, our corporate partners are enjoying an advantage over the Government in receiving better rates and amenities by moving volume to program hotels where their employees frequently stay.

MANAGEMENT CONTROLS

The examination of management controls was limited to those necessary to accomplish the specific objectives and scope of the audit. Based on our limited review, we found no significant management control problems.

OTHER REPORTABLE MATTER

Inherent Risks over the Program Fee

Although not related to increasing FedRooms usage, we noted inherent risks regarding the 2.75 percent funding fee that CWT remits to GSA. First, CWT could not ensure that hotels were reporting FedRooms bookings accurately. Secondly, FAS did not verify the fee that CWT remits to GSA. Accordingly, FAS had no assurance that hotels were remitting the correct fee to CWT, or that CWT was remitting the correct fee to GSA. This lack of verification will become a more important issue if program usage increases.

As indicated in the table below, revenues increased for FYs 2007 and 2008 (first nine months). As program usage increases, it is increasingly important that the amounts be verified to ensure accuracy.

Table III - FedRooms Program Revenues

Revenue Category	FY 2007	1 st 3 Quarters of FY 2008
Program Revenues	\$7.8 million	\$23.8 million
Fees Remitted by Hotels to CWT (2.75%)	\$215,189	\$654,605
Fees Remitted by CWT to GSA (0.75%)	\$80,696	\$178,529

Source: CWT's Reporting and Remittance Coordinator for FedRooms

Hotels could underreport or over-report FedRooms stays due to cancelled reservations, or confusion about whether a stay falls under the FedRooms rate. Further, because program hotels self-report the amount of these bookings, the hotel can opt not to report FedRooms nights to avoid fees.

CWT performs reasonableness tests of the amounts reported, and due to enhancements to FedRooms.com in April 2008, CWT can now capture information on reservations that are made through FedRooms.com. Since a large portion of CWT's program revenue comes from the hotel fees, they have significant incentive to ensure their accuracy, but currently, there is no complete, dependable audit trail for these hotel reports and remittances. Until all FedRooms reservations go through FedRooms.com and FedRooms.com can accommodate reservation cancellations and amendments, there is little more that CWT can do to ensure the accuracy of hotel reports and remittances.

FAS relied on CWT to remit the correct portion of the fee that is due to FAS (0.75 percent). FAS did not review CWT's support documents to ensure the accuracy of the amount remitted because no reliable audit trail existed. However, FAS could review the documentation CWT sent to GSA to determine whether the amount was reasonable, and ensure that CWT computed the 0.75 percent remittance amount correctly.

Because FedRooms' funding mechanism is modeled after the schedules program, whereby vendors self-report program sales, there are no recommendations addressing

internal control weaknesses noted for the FedRooms fee. Instead, these internal control weaknesses were considered inherent risks resulting from the self-reporting of sales. However, these risks could be minimized by applying similar oversight that FAS imposes for the schedules program.

Management Comments

The Acting Commissioner generally concurred with the report's recommendations. However, for recommendation 2, the Acting Commissioner indicated that follow-up with non-compliant travelers is more appropriate at the customer agency level than issuing email notifications to employees who do not use FedRooms, a non-mandated travel program.

The Acting Commissioner also provided comments regarding the section Other Reportable Matter. He noted that while there are weaknesses regarding the Industrial Funding Fee for the FedRooms program, these weaknesses are no greater than for schedules vendors.

The Acting Commissioner's response is included in its entirety in Appendix A to this report.

Office of Inspector General Response

Recommendation 2 did not specifically direct FAS to use email notification for noncompliant travelers, but indicated that FAS work with CWT to determine the most effective method of following up with noncompliant travelers. Our benchmarking partners indicated that email notification was an effective method of informing employees who do not use program hotels. Therefore, we reaffirm our recommendation.

As far as the Acting Commissioner's comments regarding weaknesses affecting the Industrial Funding fee, we do not disagree with his statement.

APPENDICES



September 17, 2008

MEMORANDUM FOR KENNETH L. CROMPTON
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR ACQUISITION AUDITS (JA-A)

FROM: BARNEY L. BRASSEUX
ACTING COMMISSIONER (Q)

SUBJECT: GSA Draft Report, "Improving the FedRooms Program
Based on Benchmarking, Federal Acquisition Service"
(A080074)

The Federal Acquisition Service (FAS) appreciates the Office of the Inspector General undertaking this review at our request, and we believe this report will be useful in our efforts to improve the FedRooms program. We generally concur with the report recommendations, and partially concur with recommendation 2, and will develop time-phased action plans accordingly. Specific comments on a report finding and recommendation 2 are provided in the attached statement.

Attachment

cc: Regina O'Brien (JA)

FEDERAL ACQUISITION SERVICE (FAS) COMMENTS ON THE
GSA DRAFT REPORT, "IMPROVING THE FEDROOMS PROGRAM
BASED ON BENCHMARKING, FEDERAL ACQUISITION SERVICE"
(A080074)

Finding on Other Reportable Matter/Inherent Risks Over the Program Fee (page 19)

We noted inherent risks regarding the 2.75 percent funding fee that CWT remits to GSA.

Comment

FedRooms operates off of schedules contracts. While there are weaknesses that are inherent to schedules, the management of the Industrial Funding Fee for FedRooms receives attention from the vendor and program management at least equal to, if not greater than, that given to other schedule vendors. There is an implication in this report that there are "control weaknesses", however, these are no greater than those of any other schedule vendor.

Recommendation 2

Direct GSA program officials to work with CWT to determine the most effective method of marketing FedRooms and following up with non-compliant travelers.

Comment

We appreciate that the suggestion to issue follow-up emails to employees that do not use program hotels is an effective compliance tool in a directed/mandated lodging program. However, this is not the case with FedRooms. The Government lacks a policy/regulatory foundation to identify travelers as noncompliant. We believe noncompliance is best managed at the customer agency level. Nevertheless, we agree that there is a need to make more travelers aware of FedRooms and we will pursue a marketing strategy to promote its usage.

IMPROVING THE FEDROOMS PROGRAM
BASED ON BENCHMARKING
FEDERAL ACQUISITION SERVICE
REPORT NUMBER A080074/Q/A/P08009

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